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# Social Concepts in Economic Theory

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IN the brief space allotted to a single article it is neither possible to treat exhaustively nor trace historically the development of recent social concepts in economic science. In view of the growing weight of authority attaching to economic theory and reasoning in the minds of practical men of affairs and those who shape and make public policy, it may serve a useful purpose to point out some of the social concepts that now find a place in the economist's analysis and explanation of the phenomena of wealth.

A rather remarkable humanizing process in economic theory can be traced for nearly a half century or from about the Centenary of Adam Smith's *Wealth of Nations* in 1876, when Walter Bagehot labored to justify the mechanistic and objective isolation of economic facts in order to insure an exact science of economics which was to be as serviceable in extending our knowledge of the world of work and business as the physical sciences, which were the glory of that day, had been in teaching men to know the natural world in which they lived.<sup>1</sup> Carlyle's diatribes on the "dismal science" were born of as little knowledge and appreciation of what economists were about and of what political economy was good for as the maladversions of Harriet Martineau and the pseudo-economists in Parliament nearly a half century earlier, who denounced the Factory Acts as opposed

to all sound economics and seized upon loose statements of economic theories of free competition and of the forces of demand and supply "to quote for the purpose of keeping the working classes in their place."<sup>2</sup>

In fact as Marshall has well pointed out all of the real economists of the early thirties and forties, McCulloch, Tooke and others—with the exception of Nassau Senior, who wrote against them "when he had only begun to study economics"—supported the Factory Acts, and were not unmindful of the greater range that had to be given to collective as opposed to individual action in economic affairs. The fact that Nassau Senior a few years later formally recanted his opinions has been generally overlooked or forgotten by students of the English industrial history in the early half of the nineteenth century.<sup>2</sup> No one shows better than Marshall himself, in the first edition of his *Principles of Economics* which appeared in 1890, the great change that had come over the masters of economic theory as a result, in part, of the influence of the historical school of economic research and of biological studies and the development of the biological and social sciences.

Economics at the close of the nineteenth century and ever since has lost

<sup>1</sup> Walter Bagehot, *Economic Studies: Postulates of Eng. Political Economy*. Pp. 255-260; *Preliminaries of Pol. Econ.*, p. 319. Hartford Travelers Ins. Co., Edit., Works of W. Bagehot, Vol. 5.

<sup>2</sup> Alfred Marshall, *Principles of Economics*, 8th Edit. 1920, App. B, 6, p. 763 note. Marshall in his *Industry and Trade* (3rd Edit. 1920) App. E. on "The British movement toward free trade" says: "It does not appear that any eminent economists maintained a position of hostility to the Factory Acts; though they were bitterly opposed by some writers who had a superficial knowledge of economics."

nothing in its positive value as a science, and it has gained a great deal in its applicability and service to the real world in which we live, by reckoning with human and social factors as well as the "definite and exact money measurements of the steadiest motives (that is, those which can be measured best quantitatively) in business life."<sup>3</sup>

Even John Stuart Mill, in his rejection of an early ambition to contribute to a more abstract science of economics and in his great work published in 1848 which he called *Principles of Political Economy with some of their applications to Social Philosophy*, showed plainly the transition from the purely mechanistic concepts of the period dominated by the influence of the thinking and reasoning of Adam Smith, Malthus and Ricardo to the social factors and the humanizing process that transformed economics in the hands of Marshall and his contemporaries in England and their colleagues in America at the beginning of the twentieth century.

#### SOCIAL CONCEPTS

Without further attempt to appraise the extent or value of this socializing process in economic theory, let us ask what are some of the concrete social concepts which are considered capable of definite measurement and are now affecting the scope, character and content of economic laws.

There are at least five of major importance,

(1) Coöperation as a factor in production, especially coöperation between labor, management and capital.

(2) Standard of living and the maintenance of a national minimum in relation to wages and productivity of labor.

(3) Stabilizing demand for so-called common necessities, or goods affected

with a public interest, such as transportation, fuel, food, clothing and shelter, in relation to unemployment and interrupted production.

(4) Industrial peace, and the public or non-participants' interest.

(5) Collective responsibility for the risks and hazards of industry assumed by labor, management and capital.

#### COÖPERATION

Coöperation between labor, capital and management is increasingly recognized as a factor in production having important relations to productivity of the individual worker as well as of the industry. Hence it bears an important relation to wages, labor costs, the elimination of waste, and profits. Such coöperation as is here contemplated is secured only where the machinery exists in an industry, or more frequently in a single plant, for full and frank conference between the management and their employees. It finds its full fruition when the usual labor contract, whether made with or through unions or with employees individually, is based on a more extensive knowledge on the part of the management of the cost and standard of living, the training and ambitions, the racial and group peculiarities and sensibilities of the workers who supply both the skilled and unskilled labor which the industry or plant requires; likewise when it is based on a more thorough and intimate knowledge on the part of the workers of the economics of the business processes, the cost accounting, market conditions, etc., affecting the product of the business.

Such coöperation may directly affect unit costs of production and indirectly affect every other economic factor entering into or flowing from the production of economic goods. It means a great deal more than merely a necessary incident in efforts to secure industrial

<sup>3</sup> Marshall, *Principles of Economics*, Book 1, Chapter 2, 8th Edit. 1920.

peace. There are really a great many ways in which coöperation between employers and employees or between labor, management and capital is sought and being brought about. Shop committees, works councils, industry-wide councils and many plans growing out of experiments in industrial democracy are in actual operation in hundreds of plants and many industries throughout the United States and Great Britain.<sup>4</sup> The progress of such experiments will depend largely on the initiative of employers and the recognition of a new responsibility on the part of industry and management. The economic significance of such experiments will, therefore, vary with the extent to which a particular industry or industry as a whole consciously assumes responsibility for creating conditions that make for coöperative relations.

#### STANDARD OF LIVING

A second social concept that deserves and is receiving serious consideration as a factor in economic theory is that of a standard of living. Efforts to set up a standard of living as a measure of reasonable wages have been varied and have already attained considerable success especially in industries operating under governmental supervision and regulation. Thus the wage boards, provided in the minimum wage laws of several countries and of some dozen or more states and the authorities established in government controlled industries during the War as well as the commissions or boards which regulate wages or working conditions in public utilities and in transportation, all give weight in their determinations

to the statistical data now available to show the fluctuations in family budgets. The aim, of course, is to find for different localities and for different industries the minimum amount necessary to maintain a normal family of five in a state of health and physical efficiency and to regard this amount as a base below which the bargaining of the market shall not depress the normal level of real wages. The records of many wage boards reveal interesting results whenever representatives of employers and workers in any particular industry get together around a table and agree upon the items that shall enter into a normal standard of living and the cost of those items. Invariably the total is greater than the market rate of wages in the industry investigated. This is true even where the standard agreed upon is conservative and more so when the standard includes, as it should, in addition to provision for health and physical efficiency, provision for savings or for insurance contributions to protect workers from the risks of unemployment, invalidity and old age, and also adequate minimum provision for education, recreation and participation in community and citizenship enterprises. The data available for determining a subsistence wage are more readily obtained from the recorded experiences of working people than the data for ascertaining what is necessary to provide a moderate standard of comfort and economic security.

Where workers are not given any assistance, either through strong unions or through minimum wage laws or through governmental protection, in their bargaining power with their employers, it is an open question whether marginal wages are not generally fixed by industries that are really parasitic or by that part of an industry that is parasitic and would not exist except for the tax it imposes upon the

<sup>4</sup> Constructive experiments in industrial co-operation between employers and employees by Sam A. Lewisohn, *Proceedings of the Academy of Political Science*, v. 9, No. 4, Jan. 1922, p. 1 or 539.

community through the doles of public and private charity. Subsidized industries may be necessary and justifiable under clearly known conditions and the recognition of a minimum standard of living in any industry or in any community is a valuable aid to the public knowledge of those conditions and will undoubtedly serve as an effective check upon abuses. A standard of living, however, officially determined and frankly recognized, serves a more important purpose, for employers and workers alike, as a guide and measure of the productivity of the workers and the organization and management of an industry.

#### COMMON NECESSITIES

A third social concept which has attained even greater economic significance in all highly organized industrial communities is that which has segregated an increasing number of economic goods and services regarded as common necessities, or affected with a public interest, such as transportation, food, fuel, shelter and clothing. Here we find a stabilized demand. We also find that the distribution of population and the highly developed division of labor in modern industrial societies makes interrupted production and unemployment a more serious factor which cannot be dealt with satisfactorily through the ordinary channels of free competition and the normal working of the unrestricted law of supply and demand. If uninterrupted production is to be maintained and the ordinary fluctuations in demand are successfully stabilized, evidently a social compulsion will be exercised and will profoundly affect the bargaining power of both labor and capital. This social compulsion may not go to the extent of conscription either of labor or capital. Compulsory military service and even the conscription of capital

may become necessary and are recognized as legitimate in time of war when the life of the nation is at stake. No such principle, however, nor even social pressure which would violate the constitutional guarantee of a free people against involuntary servitude, is necessary or expedient in a peaceful industrial state. Other means are available and effective to achieve the necessary social pressure not inconsistent with, but rather based upon, a broader concept of social and industrial justice.

The present situation in the coal industry in the United States furnishes a good illustration of the maladjustment of economic forces. In the production of soft coal especially there is a surplus of possibly 40 per cent of workers engaged in the industry over the number which can be employed, at living wages on anything like full time, to meet the market conditions of demand for that product; and likewise, there is a surplus of capital engaged in the operation of mines, which cannot be profitably operated at prices fair to the consumer, for coal which could be supplied by the more intensive operation of existing better mines. No solution for this problem seems possible except nationalization of the mines or their operation under government supervision and control. The latter method might be achieved without nationalization by a plan of regional unification, regulation of prices, priorities of transportation facilities, and some scheme of setting aside a reserve fund out of the regulated price to compensate unemployed workers and unemployed capital invested in unused mines until such time as the surplus capital and the number of surplus workers could be gradually reduced to what the industry can normally use on a profitable basis. Regional unification coupled with regional competition along the lines contemplated

in the transportation act for the regulation of railways under government supervision, but with private operation, might be relied upon to protect the interests of the consumer.

#### INDUSTRIAL PEACE

A fourth social concept is closely allied to that of the segregation of production of common necessities or goods affected with a public interest which we have just discussed, namely, the concept of industrial peace. The time has come, says Mr. B. Seeborn Rowntree, "for those who are responsible for the conduct of industry to think industrial peace, and to set it before themselves as an ideal, to be realized, not in some far distant century, but now. Its realization is perfectly possible. . . . It cannot be secured by 'keeping the workman in his place.' The day for that kind of thing is past. . . . There remains only one way to establish industrial peace: It is to remove the occasions of industrial war."<sup>5</sup> Mr. Rowntree, himself a large and successful employer with considerable experience in public service in industrial relations on a national scale, speaks not only for his own country, Great Britain, but has outlined a detailed plan based on actual British experience and a scholarly economist's analysis, observation and conclusions, based not only on British experience, but on a knowledge of the general economic factors of countries as varied in their industrial organization as Belgium, France and the United States, which, however, have so much that is fundamentally common in their industrial and economic processes.

Industrial peace means a recognition of the force represented by the general

public or the non-participants in the ordinary economic struggle. That part of the body politic, more numerous than all of the wage-earners and the share holders or investors involved in any single industry, or even in any group conflict in industry, but interested as consumers in the stability of all industry, has rights and the power to enforce them. These rights and public opinion, which in the last analysis is determined by the way in which they are respected, constitute an economic force which must be increasingly reckoned with.

#### COLLECTIVE RESPONSIBILITY

A fifth social concept which grows out of that of industrial peace and indeed is almost a corollary of it is that of collective responsibility for the risks and hazards of industry assumed by labor, management and capital. In other words, the public is gradually gaining a certain practical working knowledge of economic facts. As a result it is saying to wage-earners: We are prepared to assume as a collective responsibility, and to pay the cost in the prices we pay for the goods you produce, those risks of unemployment, of industrial accident, perhaps even of sickness, certainly of occupational diseases, invalidity and old age, which have heretofore fallen almost exclusively upon your individual shoulders and for which you are individually unable to provide economically and adequately through such organization as you alone can effectuate. It is prepared to say likewise to management: If you will assume as a responsibility of industry, not merely the making of profits, but also the maintenance of standards, which will ensure social and industrial justice and a certain modicum, at least, of economic security for both the workers and the capital required to keep your industry going; we

<sup>5</sup> "The Human Side of Business Administration," *Atlantic Monthly*, April, 1922, and *The Human Factor in Business* by B. S. Rowntree, Longmans, London, 1921.

will back you up, pay the cost in reasonable prices and give community support to deal effectively with outlaws, brigands and pirates, who now operate to break down those standards.

Such in brief are a few of the more important social concepts that are shaping themselves in the minds of an increasing number of people in democratic self-governing industrial states all over the world. Politicians may play with them and thwart

them, and demagogues may seek to divert them to unholy uses; economists, however, upon whom we must rely for ultimate guidance in determining public policies, will reckon with them as new forces of great promise. They may necessitate the rewriting of some of the older laws of production, distribution and consumption. They have already transformed the dismal science into a human science of greater authority and of immeasurably greater service to humanity.